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Attack of the creationist reverberators! Or: The end of the world (as we know it)

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WHAT RECESSION?

First, let's dispel any false pretenses. To offer an Australian perspective in a journal issue devoted to *Recession and the media* may give the wrong impression. It assumes that Australia *had* a recession in the period following the collapse of Lehman Bros in September 2008, like almost every other OECD country. Naturally, everyone at the time – especially the Australian news media – did assume the worst, if only because Australia routinely follows whatever its Western allies do. Few believed Prime Minister Kevin Rudd or the Reserve Bank of Australia (RBA) while they studiously avoided uttering “the R word” for several months. Even their nerve finally broke, in April 2009, when Mr Rudd said, “the global economic recession means that a recession is inevitable in Australia.” On the same day, Glenn Stevens, head of the RBA, said, “I think the reasonable person, looking at all the information that we have available now, would come to the conclusion that Australia, too, is in recession.”¹ But the figures soon confirmed that they had been right all along, and what is more the government itself was responsible. Their quick action to provide a massive financial stimulus package had worked. The recession never hit. China too avoided the downturn, and continued to import Australian resources. Unemployment remained low. The big four Australian banks had no exposure to toxic debts. Consumer spending and house prices held. Local interest rates and the Aussie dollar exchange rate began to creep up.

¹ ABC Radio Australia (2009).

Because the Australian economy ranks at only about #15 on the world scale, this unique achievement went unnoticed among the international community. The only leaders to merit global media attention were the US President and the UK Prime Minister (Big Boys' Club), the President of Iceland and later the Prime Minister of Greece (If it Bleeds, it Leads). None of these players had been as agile, decisive and successful as the Australians, but no credit went to "the lucky country."

So; no recession at the national level. Perhaps we can find one at the sectoral level? How did the Australian media fare during 2009? Here the picture is more gloomy, but mainly because underlying trends continued, never mind the GFC (Global Financial Crisis). In particular, as everywhere else, advertising revenues were down. But even here, if the industry body The Newspaper Works was to be believed (and this report did appear on April Fool's Day 2009), "Australian newspapers had been 'outperforming both the US and UK markets quite consistently' for the past four years" and "the Australian industry is being wrongly 'saddled with the doom and gloom coming out of the US'." ²

What recession?

THE END OF THE WORLD...

Australian media ownership has effectively been a commercial duopoly for generations – generations of ruling families that is, topped by the Packer and Murdoch families.

The late Kerry Packer and his son James used to rule through PBL (Publishing & Broadcasting Ltd., now Consolidated Media Holdings, CMH). They owned TV Channel 9,

² The Newspaper Works (2009).

Australian Consolidated Press with about 70 magazines, part of pay-TV Foxtel, and online ventures such as Seek (recruitment) and Carsales.com.au.

Rupert Murdoch and *his* son James ruled through News Ltd. Despite migrating to the US, via the UK, the Murdochs still own a swag of Australian newspapers and news services (*Daily Telegraph, Fiji Times, Gold Coast Bulletin, Herald Sun, Newsphotos, Newspix, Newstext, NT News, Post-Courier, Sunday Herald Sun, Sunday Mail, Sunday Tasmanian, Sunday Territorian, Sunday Times, The Advertiser, The Australian, The Courier-Mail, The Mercury, The Sunday Mail, The Sunday Telegraph, Weekly Times, Big League, Inside Out, donna hay, ALPHA*), as well as stakes in Foxtel etc. etc. Of course this is only part of News Corp's larger global interests, which include MySpace, Hulu, Rotten Tomato and Beliefnet, along with well-known newspaper and TV assets in the US and UK.

In Australia, Murdoch's main competition in newspapers has been from the Fairfax group – also a family empire, although the family influence waned after a disastrous attempt in 1990 by Warwick Fairfax to re-privatise the company. Fairfax publishes the prestige *Sydney Morning Herald, The Age, Australian Financial Review* and regional papers. It's fair to say that the group was facing tough times well before the GFC, but because of the weight of newspapers in its portfolio the advertising downturn hit hard in 2009.

For the Packer empire, the divine right of succession did not turn out as expected. Flagship Channel Nine was for decades the number one free-to-air TV network in Australia. But James Packer did not share his father's interest in retrograde media, and divested himself of his broadcasting assets to focus on his Crown Casino gambling empire. Now Nine languishes in both repute and ratings, succumbing to what looks like a terminal dose of *Two*

and a Half Men and naff, blokey sports presenters (one of whom, Eddie McGuire, was Nine's CEO for a while).³

The GFC period saw Nine decisively overtaken in the ratings by Channel Seven, owned by Kerry Stokes, the only mogul left with interests across Australian radio, TV, newspapers, and pay-TV. No sooner did he bestride the top of the heap than Stokes caught dynasty fever too. His son Ryan is now a director of CMH – being groomed for succession, say insiders.⁴ But like Murdoch and Packer, Stokes is diversifying out of media (e.g. he owns a lucrative Caterpillar franchise), and moving offshore.

So if there has been a media recession, let's say it is in the concentrated power of local family empires.

...AS WE KNOW IT

In October 2008, early in the GFC, Rupert Murdoch gave an analyst and investor briefing in Sydney. It was reviewed by Macquarie Research, who reported:

He was very bearish, saying the world was entering a “major deleveraging” period which would mean reduced profits and valuations (“get used to lower multiples”) for all companies. Within media, newspaper companies reliant on classified advertising will be hurt the most and free-to-air TV also permanently damaged.⁵

³ See *Daily Telegraph* (2009).

⁴ *Australian* (2009).

⁵ Macquarie Research (2008). Emphases mine.

The end of the world *as we know it* applied to advertising and single-platform broadcasting.

But as Macquarie went on to say:

There is a second big divide opening up in NWS [News Corporation]. Up to now NWS has been dissected based on its *content* and *distribution* revenue streams; now with broadband internet making content ubiquitous (so requiring less ownership of individual distribution modes) the new distinction is between *advertising* (online, i.e. newspapers and MySpace etc) and *subscription* (movie ticket prices, pay-TV, mobiles, DVDs etc).

Murdoch is trying to move the company further toward subscriptions and away from traditional advertising (ibid.).

By the third quarter of 2009, Murdoch was claiming that “the worst is over” for News Corp.

Macquarie’s analysts agreed:

The result highlighted the relative resilience of NWS’ *subscription businesses* especially cable network programming, the strong value proposition offered by the company’s *film platform* and NWS’ robust *balance sheet* (US\$6.1bn cash on balance sheet). Maintain Outperform.⁶

So News Corp went from “downgrade” to “outperform” in six months. It was now a “subscription business” with a “strong value proposition” in film – a proposition called *Avatar*, to be released in December 2009. It was no longer regarded as a newspaper or even advertising-based company; and apart from 25% of Foxtel not much of an *Australian* company either as far as the balance sheet went.

As the locals moved out, the globals moved in. In May 2009, Google passed a momentous milestone, reported by online news site Crikey.com:

⁶ Macquarie Research (2009). Emphases mine.

The idea that a new media invention could steal almost 10% of the entire Australian advertising pie, within barely a decade, would be fictitious if it hadn't happened. Google now generates more ad revenue than the entire Australian radio industry; a lot more than the three Fairfax flagship newspapers combined; more than any of Australia's TV networks; almost as much as all magazines in Australia.⁷

Here's why Murdoch was redefining the company away from advertising. It wasn't the downturn. A spectre was haunting News Corp – the spectre of Google.

ATTACK OF THE CREATIONIST REVERBERATORS!

Rather than seeing this as the Writing on the Wall – his own private Belshazzar moment, Mr Murdoch saw it as a challenge. Why waste a good recession? He used 2009 to attack Google, accusing it of *theft*. For instance, and this was only one of numerous such statements during the year, in October 2009 he addressed media executives in Beijing:

“The aggregators and plagiarists will soon have to pay a price for the co-opting of our content,” Murdoch said. “But if we do not take advantage of the current movement toward paid content, it will be the *content creators* – the people in this hall – who will pay the ultimate price and the *content kleptomaniacs* who triumph.”⁸

Meanwhile son James was also on the attack, taking aim at government intervention in the market, in the shape of the BBC, Channel 4 UK and UK media regulator Ofcom. James

⁷ Beecher (2009).

⁸ Kosova (2009). Emphases mine.

accused them of *creationism*, no less. He told the Edinburgh International Television Festival:

This year is the 150th anniversary of Darwin's *The Origin of Species*. It argued that the most dramatic evolutionary changes can occur through an entirely natural process. Darwin proved that *evolution is unmanaged*. [...] The number who reject Darwin and cling to the concept of creationism is substantial. And it crops up in some surprising places. For example, right here in the broadcasting sector in the UK. The consensus appears to be that creationism – the *belief in a managed process with an omniscient authority* – is the only way to achieve successful outcomes.⁹

Creationist content kleptomaniacs? What was all this *really* about? James Murdoch concluded, “The only reliable, durable, and perpetual guarantor of independence is profit.” So, it’s about how to make *profit*. You might think that this, in turn, is about *advertising*, not least because Google CEO Eric Schmidt seemed to be spending 2009 saying that “Google is in the advertising business.”¹⁰ Or you might think it is about *information*, since both News Corp and Google are providers of that commodity. But no. Mr Murdoch’s attack dogs would have us believe that it’s all about how *our* freedom and *his* profit are the same thing. Here’s Robert Thomson, editor-in-chief of Dow Jones, managing editor of *The Wall Street Journal*, former

⁹ Murdoch (2009). Emphases mine.

¹⁰ Schmidt was quoted several times throughout 2009 as saying that Google is in the advertising business – as opposed, say, to the search or information business: e.g. on January 7 (Lashinsky, 2009); and on November 7 (Elliott, 2009).

editor of *The Times*, former US editor of the *Financial Times* – and an Aussie (former journo with the Melbourne *Herald*):

It is becoming clear that there are two personality types in the world of content: the *creators* and the *reverberators*. The latter group is merely an editorial echo chamber: the noise is sometimes interesting, but they are neither composers nor musicians. If we make a comparison to tennis, in which the sublime Spaniard Rafael Nadal and Roger Federer fight out a final on centre court, the reverberators are like ball boys and ball girls. If one stretches the imagination you can almost imagine Arianna Huffington and Eric Schmidt scurrying around the court, part of the event but not why you *pay money to attend*.¹¹

So it's about the '*reverberators*,' then? Of course, the Murdochs are attacking another kind of freedom – free content. That's what public media platforms provide. And it is Google's business plan. Here's CEO Eric Schmidt, explaining it to Ken Auletta for a book called *Googled: The End of the World as We Know It*:

"The benefit of free is that you get 100 percent of the market," Eric Schmidt, Google's chief executive, explained to Auletta. "Free is the right answer." For a while, perhaps – but maybe free is unsustainable. For newspapers, Auletta writes, "free may be a death certificate." Maybe in the end, even on the internet, you get what you pay for.¹²

That last bit is certainly what Murdoch wants you to think (as ventriloquised by henchman Thomson):

¹¹ Thomson (January 23, 2010). Emphases mine.

¹² Baker (2009).

Rupert Murdoch's intent at the start of the year was to prompt a debate on the value of content and then begin a second debate over how that value can be best captured. The third phase is to introduce a charging mechanism that is as understandable to users as it is remunerative to those who create content. It was clear to Murdoch that too many institutions were resigned to seemingly inevitable decline and that there had not been a coherent examination of the motives of those whose *business models* were built on *other people's content*.

THE NEW CREATIONISTS

The reverberations continue to echo across the globe. As one commentator put it:

The newspaper groups are between a rock and a hard place [...] The big publishers are waiting for Murdoch, who's prone to bold and sometimes industry-transforming moves, to go first. When and how he does that could determine the fate of newspaper groups around the globe, including his own.¹³

In other words, and not for the first time, Murdoch is risking the company on his hunch about having the right business plan.

Will he defeat the reverberators? Or be swallowed up in a mighty tsunami of creative destruction unleashed by those scurrying ball boys and girls? Will we ever be free? Or will we get what we pay for?

So there you go. 2008-9 wasn't about the GFC, the recession, the reverberators, the creationists, or even about the end of the world. It was about *business plans*, stupid. Never mind about the media recession. Get into the subscription business. Anyone for tennis?

¹³ Bartholomeusz (2010).

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